ALEXANDER PARIS: "THE MARKET IS LIKE A CANDY SHOP"

BUCKING DEFENSE CUTBACKS: RAYTHEON AND LORAL

CAREERS: TURNING LAUGHS INTO DOLLARS

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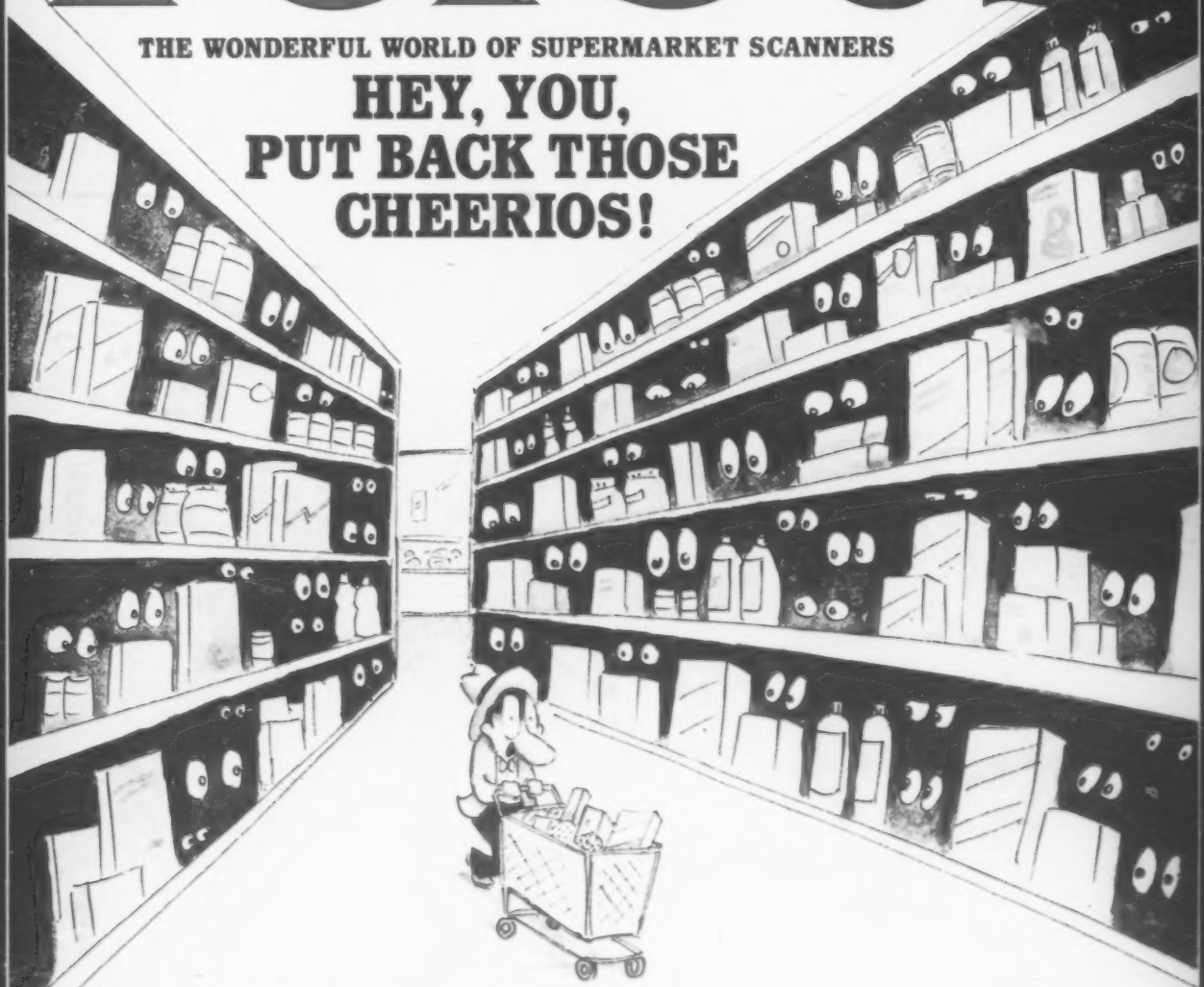
Forbes

THE WONDERFUL WORLD OF SUPERMARKET SCANNERS

HEY, YOU, PUT BACK THOSE CHEERIOS!



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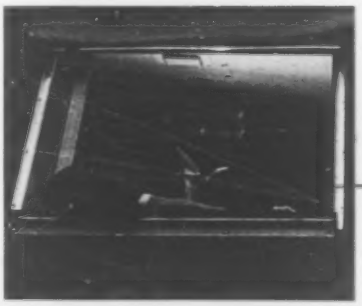

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The Forbes Index

New economic data for August reveal a fragile and vulnerable U.S. economy. Industrial production fell 0.2%, retail sales 0.6% and house building 7.2%. Housing starts are now 16% below their level of a year ago. The Consumer Price Index rose 0.9% in August (before seasonal adjustment), and oil prices were not the only culprit. Not counting food and energy prices, the cost of living rose 0.5%, following a 0.6% climb for these components in July. One bright note: Although exports fell 6.4% in July, they could pick up in the coming months if the dollar remains weak.

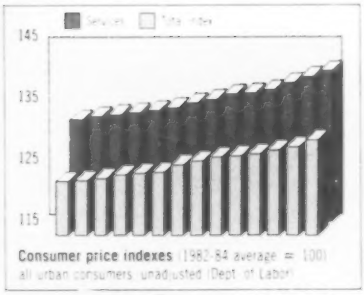
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	-5.2%
Index of leading indicators July vs. June	Dept. of Commerce	0.0%
Trade balance 12 months ended July 1990	Dept. of Commerce	-$101 bil
Producer price index August vs. 1989[2]	Dept. of Labor	5.1%
GNP 2nd quarter vs. 1st—annualized growth	Dept. of Commerce	1.2%
NBER Experimental Recession Probability Index[3]	Natl. Bureau of Economic Research	3.0%

[1]U.S.-based manufacturers, excludes imports, as of 9/10/90. [2]Finished goods. [3]July 1990.

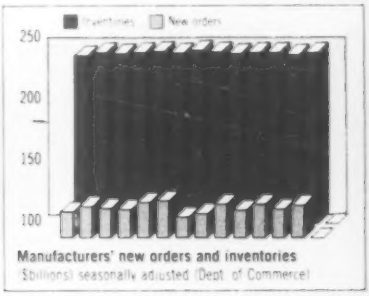
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



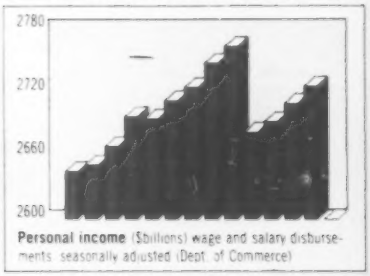
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

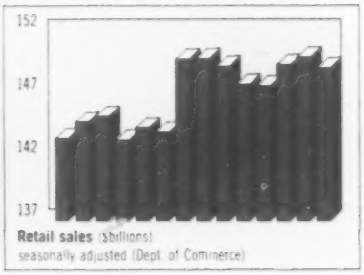
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)

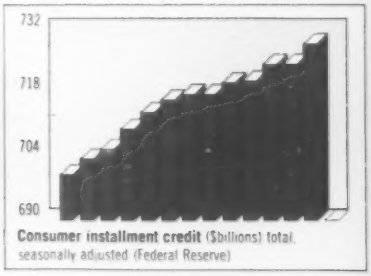


Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

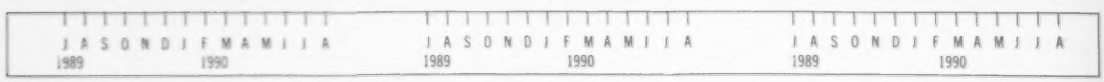
New unemployment claims average for month (thousands), seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)



For all its sins, Drexel Burnham has had one of the lower default rates on junk bonds. Other underwriters took bigger chances, and their customers suffered.

Due diligence

By David Stix

IF JUSTICE WERE meted out by bond buyers rather than by judges, Michael Milken and his crew at the late Drexel Burnham Lambert would get off lightly. Investors who bought junk bonds underwritten by Drexel did relatively well compared with those who bought bonds underwritten by some other firms.

FORBES has tabulated junk bond issuance and default rates over the period 1977-90. We had the help of a database maintained by a former Drexel analyst who now works at Salomon Brothers, another maintained by the Bond Investors Association in Miami and a third by Securities Data Co.

Here's what we found: PaineWebber heads the list of underwriters whose deals went bad, with 43% of its $2.6 billion in high-yield offerings in default. Drexel is far down the list, with only 9.1% of $113 billion in offerings in default.

The best underwriter may have been Morgan Stanley. It took $14 billion of paper to market and has seen only $25 million go into default. "We are equity owners in the majority of deals that we bring to market," says Peter Karches, Morgan's head of high-yield sales and trading. "It's extremely important to us to have good credit quality and get involved in managing and helping to run companies where we're comfortable with the business and have control over what goes on. It's not just a matter of hanging paper in the market and then running away." Kidder, Peabody's 0% default rate was a tad lower than Morgan's, but Kidder did a lot less underwriting.

Our rankings cover just over $200 billion (face amount) of new-issue high-yield paper, high yield being defined as a rating below BBB at issuance. Of the total, $23 billion is in default or close to it.

The numbers could get quite a bit uglier for bond owners. Richard Leh-

Good dealers and bad dealers

Some underwriters dished out their high-yield bonds a little too liberally. But Drexel, the busiest underwriter, has one of the lower default rates.

Lead underwriter	Total junk issues[1] ($mil)	Default rate	Lead underwriter	Total junk issues[1] ($mil)	Default rate
Drexel Burnham	$113,010	9.1%	PaineWebber	$2,600	43.4%
Merrill Lynch	15,290	15.8	L.F. Rothschild	800	38.1
Morgan Stanley	14,260	0.2	Pru-Bache	3,870	19.3
First Boston	13,600	15.8	Bear Stearns	5,100	18.4
Shearson Lehman	11,810	8.5	Goldman Sachs	7,230	18.3
Salomon Brothers	10,420	17.7[2]	Salomon Brothers	10,420	17.7[2]
Goldman Sachs	7,230	18.3	First Boston	13,600	15.8
Bear Stearns	5,100	18.4	Merrill Lynch	15,290	15.8
Pru-Bache	3,870	19.3	Smith Barney	1,770	9.4
Donaldson Lufkin	3,035	5.3	Drexel Burnham	113,010	9.1
Kidder Peabody	2,632	0.0	Shearson Lehman	11,810	8.5
PaineWebber	2,600	43.4	Dean Witter	670	7.0
Smith Barney	1,770	9.4	Donaldson Lufkin	3,035	5.3
LF Rothschild	800	38.1	Morgan Stanley	14,260	0.2
Dean Witter	670	7.0	Kidder Peabody	2,632	0.0

[1]Face amount, January 1977 through August 1990. [2]Excluding Texaco default, rate would be 12%.

Sources: Drexel Burnham Lambert, IDD Information Services, Morgan Stanley, Salomon Brothers, Securities Data, Bond Investors Association.

How we scored them

How did FORBES track the junk issues? We followed bonds that either were publicly offered (that is, registered with the Securities & Exchange Commission) or were originally placed privately and became publicly tradable at a later date. We excluded convertible bonds.

A default is ascribed to the lead underwriter of a bond issue, although many other brokers may have peddled the bonds. A bond is treated as being in default if the borrower missed interest or principal payments or entered bankruptcy proceedings, or if the bond was exchanged for another security while on the verge of default. We counted defaults through the end of August. Thus, Donald Trump's casino bonds are not treated as in default by this rule, although they are likely either to default or to be the subject of an exchange offer that would delay cash payments.

The 15 largest underwriters of junk debt are included in the tables above. All were given an opportunity to critique the list and, where they could make a case, delete bonds under their own names or add to the list of defaults blamed on their competitors.

mann, president of the Bond Investors Association, calculates that over the next three years there could be $100 billion of additional defaults, counting publicly and privately placed junk debt. Says Lehmann: "I'm going to have to get a bigger computer to keep track of all these."

Both Drexel and (if you exclude Texaco's default) Salomon look pretty good in the rankings. In the table on page 118 we show underwriters' default rates, figured using junk bond issues of all sizes. The table below shows defaults of issues of $100 million in face amount or more.

The moral for investors: Know the company you're buying from. For all its faults, Drexel knew the market—Michael Milken virtually invented it. Some of the worst dogs were bred by firms trying desperately to get into the market; sometimes they took deals Drexel wouldn't touch. ■

Bad deals

Here, arranged by lead underwriter, are the largest issues of junk bonds since 1977 that have defaulted. Some underwriters with high default rates are absent here: Their problem bonds were all small issues.

Company/coupon/maturity	Face amount outstanding ($mil)	Year issued	Year default
Bear Stearns			
Resorts Intl Financing/16⅝s '04	$200	1984	1989
Resorts International/11⅛s '13	230	1983	1989
Drexel Burnham Lambert			
Ames Department Stores/13s '99	200	1989	1990
Bond Brewing Holdings/12⅝s '06	510	1986	1989
Centrust Bank/15⅞s '00	125	1988	1990
Circle K/12¾s '97	125	1985	1990
Crystal Oil/15s '95	125	1985	1986
Eastern Air Lines/12⅜s '96	193	1986	1989
Eastern Air Lines/11¾s '93	190	1986	1989
Elsinore Finance/15½s '99	115	1984	1985
Gillett Holdings/12⅝s '98	251	1986	1990
Gillett Holdings/13⅞s '99	170	1987	1990
Griffin Resorts/13⅞s '98	200	1988	1989
Griffin Resorts/13½s '95	125	1988	1989
Hillsborough Hldgs/Walter Ind/17s '96	350	1988	1989
Hillsborough Hldgs/Walter Ind/14⅛s '94	176	1988	1989
Integrated Resources/10¾s '96	299	1986	1989
Integrated Resources/13⅛s '95	124	1985	1989
Integrated Resources/10s '90	104	1987	1989
Koor Industries/12s '96	105	1986	1990
Las Colinas/12½s '92	200	1985	1987
Leaseway Transport/13¼s '02	193	1987	1990
Linter Textiles/13¾s '00	200	1988	1990
Michigan General/10¾s '98	110	1983	1987
Miramar Marine/14s '98	125	1988	1990
Oak Industries/13⅛s '01	100	1981	1985
SCI Television/15½s '90	249	1987	1989
SCI Television/17½s '99	128	1987	1989
SCI Television/16½s '97	100	1987	1989
Service Control/14s '98	100	1988	1990
Southmark/13¼s '94	334	1986	1989
Southmark/11⅞s '93	139	1986	1989
Southmark/11½s '91	132	1986	1989
Southmark/10⅞s '89	125	1986	1989
Swan Brewery/14⅞s '98	121	1983	1989
Univision Holdings/13⅜s '99	105	1988	1990
Western Union/19¼s '92	500	1987	1990
First Boston			
Allied Stores/11½s '97	700	1987	1990
Allied Stores/10½s '92	200	1987	1990
Federated Depart Stores/16s '00	$500	1988	1990
Federated Depart Stores/0/17½s '04	306	1988	1990
LTV-Republic Steel/12⅛s '03	193	1983	1986
McLean Industries/14¼s '94	125	1984	1986
McLean Industries/12s '03	119	1983	1986
Goldman Sachs			
Southland/16¾s '02	500	1987	1990
Southland/0/16½s '97	402	1987	1990
Southland/15¾s '97	350	1987	1990
Merrill Lynch			
Coleco Industries/11⅛s '01	184	1986	1988
Eastern Air Lines/17⅛s '93	200	1988	1989
Fruehauf/13⅜s '01	310	1986	1989
Fruehauf/13½s '96	200	1986	1989
General Develop/12⅛s '05	175	1985	1990
Global Marine/16⅛s '02	136	1982	1985
Hillsborough Hldgs/Walter Ind/13⅛s '03	100	1983	1989
PS New Hampshire/13¼s '96	225	1986	1988
PS New Hampshire/17½s '04	130	1984	1987
Service America/0/17s '99	127	1987	1990
PaineWebber			
General Develop/12⅞s '95	125	1988	1990
Greyhound Lines/13s '95	150	1988	1990
PS New Hampshire/14⅜s '91	100	1983	1988
PS New Hampshire/15s '03	100	1983	1987
Prudential-Bache			
Republic Health/13½s '04	100	1984	1987
Western S&L/15⅝s '95	115	1985	1989
Salomon			
ANAC Holding (Revco)/13⅛s '93/4	400	1986	1988
ANAC Holding (Revco)/13¼s '95/6	210	1986	1988
Lomas Financial/10¾s '93	200	1988	1989
Maxicare Health Plans/11¾s '96	125	1986	1989
Texaco Capital/9s '88	300	1986	1987
Texaco Capital/11s '89	300	1986	1987
Shearson Lehman Hutton			
General Homes/12⅛s '98	100	1986	1988
LTV/14s '04	133	1984	1986
LTV/9½s '95	100	1984	1986
United Merchants & Manuf/13¼s '00	130	1985	1990

The Forbes Wall Street Review

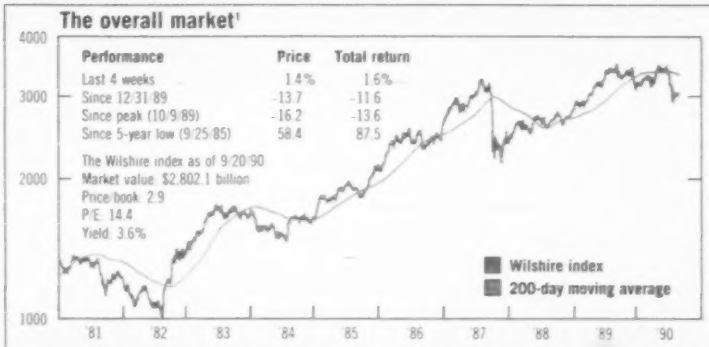
By Eric S. Hardy

Richard L. Evans, chief market analyst of *Dow Theory Forecasts*, warns, "In some ways, the market looks like it did in the bear market of 1981, when stock prices declined for about a year until the dramatic recovery in August 1982." Nevertheless, Evans doesn't expect much further deterioration in stock prices. He thinks a major decline in corporate profits would make the market vulnerable to another long-term correction, but he considers this unlikely. His favorite group is the beleaguered retailing industry, especially larger outfits like Woolworth, Sears and Kmart.

Contrarians might be encouraged by all the pessimism on Wall Street, including the record-high short interest on the New York Stock Exchange (up 6% over the past month). And there is no shortage of cash on the sidelines. *IBC/Donoghue's Money Fund Report* says assets of nonbank money market funds have reached a new high of $400 billion.

Stock prices continued to slide during the latest two-week period. Over-the-counter stocks were especially hard hit as the Nasdaq index fell 3.8%. The Wilshire index shows a decline of 2.9% during the period and has dropped more than 13.7% since the start of 1990. Even with dividends added back, the average stock in the Wilshire index has dropped 11.6% since the start of the year. And its dividend yield is now 3.6%.

The overall market[1]



The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Viacom	18½	19%	NM	175	1.2
United Artists Entertainment	12⅛	13	NM	612	0.8
Centocor	40½	12	NM	1,470	0.8
UAL	102¼	11	10	2,289	1.1
Consolidated Natural Gas	51¾	11	27	1,190	1.6

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
MBIA	25½	-31%	8	2,165	2.8
Oracle Systems	7	-29	8	20,514	1.5
Control Data	10¼	-26	NM	1,279	1.0
Contel Cellular	10⅛	-25	NM	256	0.4
Fruit of the Loom	8¼	-25	6	3,146	0.9

Closeup on the Market

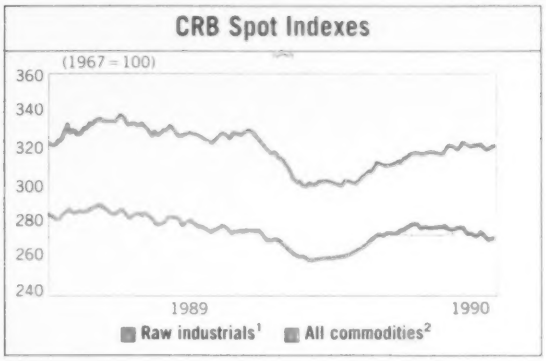
Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	2,951.37	-2.9%
Wilshire index 6,000 stocks, equal weighted	18.66	-2.7
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,518.32	-3.0
S&P 500 Capitalization weighted cross section, major stocks	311.48	-2.8
NYSE Capitalization weighted, all listed common stocks	171.22	-2.7
Amex Capitalization weighted total return: stocks, warrants	317.18	-2.3
Nasdaq Capitalization weighted, all issues except warrants	364.43	-3.8
Amex international market index Capitalization weighted, 50 largest ADRs	287.10	-3.7

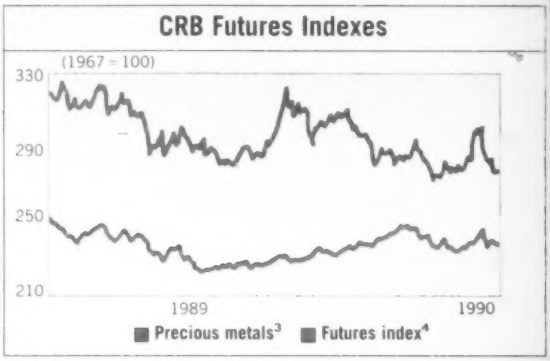
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	774.90	-3.9%
Institutional[5] Approximately 200 stocks with high institutional ownership	91.74	-6.0
Individual[5] Approximately 200 stocks with low institutional ownership	87.56	-4.3
Russell 2000 index 2000 stocks with small market values, capitalization weighted	134.71	-3.3
Gold[6] (composite quote of 6 major dealers)	$389.70	-0.2
Yen[6] (per $U.S.)	137.70	-2.2
Commodity index[6] (CRB futures index: 1967 = 100)	237.00	-0.7
Oil[6] (W Texas intermediate)	$34.70	10.3
T bills[6] (90 days)	7.37%	-1 basis point[7]
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 9/20/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 9/21/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

Commodities Review

By Eric S. Hardy





Events in the Persian Gulf haven't wreaked havoc with the commodities markets, despite rising prices and increased volatility in petroleum-related commodities. The Commodities Research Bureau's futures index *(see above right)* is up 1.5% since Aug. 1. And both the bureau's spot index (which reflects current prices) and the price of gold are near their pre-invasion levels. This is no surprise to William E. Byers, director of commodities futures research for Bear, Stearns, who notes, "Commodity prices now respond more to supply and demand rather than inflationary trends and expectations." Byers thinks the current period is unlike the 1970s, when inflationary expectations and anticipatory buying played a large role in driving up prices.

Yet there is little argument that the economy is expanding more slowly than it was during most of the 1980s. Sam Nakagama, of Nakagama & Wallace, Inc. in New York, believes the economy has been in a "mini" recession for some time. He defines this as very low—but still positive—economic growth. Unlike many of his colleagues, who think that a recession is either prevailing or right around the corner, Nakagama does not expect a "classic" recession (two consecutive quarters of declining GNP) until next year or even later. Nakagama has one caveat: If inflation continues to heat up, the economy will have to grow faster just to stay even. That is, oil-price increases will have to be offset to a degree by expanded production just to keep the economy from shrinking in inflation-adjusted terms.

Commodity Spotlight

Precious metals, especially gold, are supposed to be an inflation hedge, but these hedges can be very costly indeed. Gold was one of the worst investments during the 1980s, and it quickly gave up the gains it posted immediately after the invasion of Kuwait. Its volatility is reflected in the December gold contract *(above)*, since futures markets tend to amplify current trends. A barbaric metal, indeed.

Cash and Futures Prices

Spot Indexes			Futures Indexes		
Index[6]	Value	3-mo change	Index[6]	Value	3-mo change
All commodities	271.40	–2%	CRB index	237.63	1%
Raw industrials	320.24	1	Precious metals	278.62	0
Metals	328.87	5	Industrials	268.19	8
Textiles	264.10	1	Grains	176.16	–14
Foodstuffs	213.54	–6	Livestock & meat	221.05	–6

Spot Commodity Prices			Futures Prices		
Commodity	Price	3-mo change	Commodity	Price	3-mo change
Steel scrap (short ton)	113.00	–1%	Jan platinum (troy oz)	465.40	–5%
Copper scrap (pound)	1.03	19	Dec crude oil (barrel)	31.13	63
Print cloth (sq yard)	0.79	7	Dec copper (pound)	1.28	18
Corn (bushel)	2.18	–21	Dec cotton (pound)	0.72	–3
Soybean oil (pound)	0.24	–3	Dec Chi wheat (bushel)	2.76	–21

Notes: All prices as of 9/17/90, graphs as of 9/14/90. [1]Comprised of 13 commodities. [2]Comprised of the 13 raw industrial commodities plus 10 foodstuffs. [3]Gold, platinum and silver. [4]Comprised of 21 commodities. [5]Prices from 6/1/90 through 9/14/90. [6]Base for spot and futures indexes (1967 = 100). Source: Knight-Ridder Commodity Research Bureau.